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SENSITIVE
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DEPARTMENT FOR NEA/ARP MASILKO; DRL/ILSCR ANZALDUA

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SUBJECT: UAE ANNOUNCES DIRECT DEPOSIT SYSTEM FOR PRIVATE SECTOR
WAGES

REF: A. DUBAI 268; B. DUBAI 270

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Sensitive but Unclassified; please protect accordingly.

11. (U) Summary: The UAE Ministry of Labor (MOL) and the UAE Central Bank announced in early June the formation a direct deposit system for wages of all employees working for private sector companies. The long-anticipated scheme, expected to be operational within months, will allow employees to make fee-free withdrawals from individual bank accounts. The system will also allow MOL officials to determine which companies have not satisfied their payroll obligations; companies that fail to pay employees will face sanctions, up to and including loss of their business licenses. Partial payment and non-payment of wages have historically been sources of labor unrest in the UAE. In October and November of 2007, a series of labor strikes motivated in part by non-payment of wages halted construction at a number of Dubai landmarks. More recently, reports indicate that laborers involved in the July 6, 2008, Ras Al Khaimah unrest were angered by partial payment of wages (ref A). End summary.

Reducing the Costs of Direct Deposit

12. (SBU) In June 2007, the UAE Cabinet approved an electronic wage payment system whereby employees of nearly 260,000 private companies could receive salaries via direct deposit. (Note: Wages for public sector employees are already transferred electronically. End note). Although the system was hailed as a major improvement over traditional means of salary disbursement (i.e., paper checks, cash), Ministry of Labor advisor Alex Zalami noted to Pol/EconOff that the high costs associated with conventional electronic deposit meant that few companies actually subscribed to the proposal.

13. (SBU) Recognizing the lack of widespread use, the MOL reexamined the issue and devised a solution with the UAE Central Bank. Under the new scheme announced on June 1, the Central Bank has agreed to act as the primary facilitator of electronic payments by creating a "virtual bank" that streamlines the electronic transfer process, thus significantly reducing the costs typically borne by employers using the system. (Zalami did not know specifics of the cost structure but speculated that the government would absorb some, if not all, of the transfer costs.) Banks operating within the UAE will be instructed to open specialized accounts that will be linked to the payment transfer system. To ensure universal subscription, all companies falling under the jurisdiction of MOL have been informed of the new system and will be expected to participate. "We will use our power to make them commit," said Minister of Labor Saqr Ghobash. Zalami added that the Central Bank retains

leverage over all the banks in the UAE and if the government views this as an important improvement in the labor sector, it will force banks to participate.

14. (U) When the system is fully operational, private sector workers will be issued a bank card linked to a special account in which their wages will be deposited. Using this card, employees can make fee-free withdrawals from any ATM or point of sales terminal throughout the UAE. To ensure widespread use and maximize convenience, the Central Bank has announced plans to install a number of bank terminals at various labor camps throughout the country, thus ensuring ready access by the unskilled labor demographic for which this program is primarily focused. We have even heard talk of "mobile ATM's" that may visit labor accommodations.

Comment

15. (SBU) Mandatory electronic transfer of wages should help alleviate a persistent challenge in the UAE: non-payment or underpayment of wages often cited as primary factors for worker unrest. Examples include October and November 2007 labor unrest and the July 6, 2008, riot in Ras Al Khaimah (ref A). To be sure, success of the system will depend on compliance, which MOL officials seem to indicate will be a priority. Drawbacks to the new scheme might include banks' attempts to profit from it. At a recent Dubai labor management conference (ref B), one business owner worried that commercial banks might profit by targeting private sector employees, extending credit which they could not repay. The huge number of new customers involved include many with little education or consumer awareness who could easily fall victim to predatory marketing of high-interest credit lines or other fee-driven banking products. Zalami acknowledged this potential problem (and promised to raise it with the Minister). Part of the burden, though, will fall on private sector

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companies to ensure that their employees adequately understand both the benefits and pitfalls of the system. End comment.
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